

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

AUSA LIFE INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2000

DATE OF REPORT:

OCTOBER 5, 2001

EXAMINER:

MICHAEL V. IMBRIANO

REPORT ON ASSOCIATION EXAMINATION

OF THE

AUSA LIFE INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2000

BY

THE INSURANCE DEPARTMENTS

OF THE

STATE OF NEW YORK

STATE OF MISSISSIPPI

DATE OF REPORT:

OCTOBER 5, 2001

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

October 5, 2001

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 21649, dated November 15, 2000 and annexed hereto, a limited scope examination has been made into the condition and affairs of AUSA Life Insurance Company, Inc., hereinafter referred to as "the Company," at its home office located at 4 Manhattanville Road, Purchase, New York 10577.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

October 5, 2001

Honorable George Nichols III
Chairman, Ex Committee
Commissioner of Insurance
State of Kentucky

Honorable John Oxendine
Chairman, Southeastern Zone
Commissioner of Insurance
State of Georgia

Honorable Gregory V. Serio
Superintendent of Insurance
State of New York

Sirs:

Pursuant to your instructions an examination has been made into the condition and affairs of AUSA Life Insurance Company, Inc, hereinafter referred to as "the Company," at its home office located at 4 Manhattanville Road, Purchase, New York 10577.

The examination was conducted by the New York Insurance Department, hereinafter referred to "the Department" with participation from the State of Mississippi representing the Southeastern zone.

The report on examination is respectfully submitted.

1. EXECUTIVE SUMMARY

This was a limited scope examination of the Company as of December 31, 2000 that included; (i) a review or audit of certain targeted balance sheet items, and (ii) a review of the market conduct activities of the Company. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement. (See item 2 of this report)

The Company violated Section 1505(d)(3) of the New York Insurance Law when it failed to file with the superintendent a principal underwriting agreement it had with an affiliate prior to its effective date of April 1, 1999. (See item 3B of this report)

The Company violated Section 1505(d)(1) of the New York Insurance Law on two separate occasions when it purchased common stock and bonds in excess of one half of one percent of admitted assets from an affiliate without filing these transactions with the Department. (See item 3B of this report)

The Company violated Section 1411(a) of the New York Insurance Law by not having board approval for entering into derivative transactions for the years 1997, 1998 and 1999. (See item 7 of this report)

The Company violated Sections 175.9 and 175.10 of Department Regulation No. 111 for entering into hedging transactions between 1997 and 1999 prior to: (1) establishing written criteria approved by the board; and, (2) submitting its guidelines to the Department. (See item 7 of this report)

The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to unauthorized insurers in its advertisements. (See item 6A of this report)

The Company violated Section 219.4(p) of Department Regulation No. 34-A by using advertisements that obscure the true identity of the issuer. (See item 6A of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. This examination covers the period from January 1, 1997 through December 31, 2000. This was a limited scope examination that included: (i) a review or audit of certain targeted balance sheet items considered by this Department to require analysis, verification or description, (ii) a review of the market conduct activities of the Company and (iii) a review or audit of the items noted in the following paragraph. The balance sheet items targeted for review were bonds and short-term investments, mortgage loans on real estate, receivable from parent, subsidiaries and affiliates, aggregate reserve for life policies and contracts, liability for guaranteed interest contracts, other deposit funds and remittances and items not allocated. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2000 but prior to the date of this report (i.e., the completion date of the examination).

The examiner utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Company history
- Management and control
- Corporate records
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Mortality and loss experience
- Reinsurance

The examiner also reviewed the corrective actions taken by the Company with respect to violations, recommendations and the comment contained in the prior report on examination. The results of the examiner's review are contained in item 8 of this report.

This report on examination is confined to comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on October 3, 1947, under the name Zurich Life Insurance Company, was licensed on October 17, 1947, and commenced business in 1948.

On November 30, 1982, the Dreyfus Corporation acquired all of the outstanding shares of the Company and adopted the name Dreyfus Life Insurance Company (“Dreyfus”). In 1993, the Company was purchased by AEGON USA, Inc. (“AEGON”) and the Company’s present name was adopted.

In December 1993, the Company entered into an indemnity reinsurance agreement with the Mutual Life Insurance Company of New York (“MONY”), whereby MONY would cede \$2,733,787,100 of its general account liabilities relating to fixed and variable annuities on a 100 percent coinsurance basis. On December 31, 1993, MONY transferred general account assets to the Company at market value which consisted of \$1,045,010,955 of mortgage loans, \$1,486,230,389 of bonds, \$199,894,462 of short-term investments and \$40,549,857 of accrued investment income. In 1994, the Company assumed an additional \$3.4 billion of separate account assets and liabilities.

In July 1996, International Life Investors Insurance Company (“ILI”), an affiliated domestic insurer, was merged into the Company. ILI had assets of approximately \$698,000,000, and capital and paid in and contributed surplus of \$55,544,000.

On October 1, 1998, pursuant to an Agreement and Plan of Merger, First Providian Life and Health Insurance Company (“First Providian”) was merged into the Company. First Providian had assets of approximately \$441,535,114 and capital and paid in and contributed surplus of \$93,688,688.

B. Holding Company

The Company's outstanding shares of stock are 82.33% owned by First AUSA Life Insurance Company, domiciled in Maryland, and 17.67% owned by Veterans Life Insurance Company, domiciled in Illinois. The ultimate parent of the Company is Vereniging AEGON, a Netherlands Membership Association.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2000 follows:



The AEGON companies operate under a common cost allocation service arrangement based upon generally accepted accounting principles. The operating divisions perform specified administrative functions in connection with the operation of the various affiliated insurance companies in consideration of reimbursement of actual costs for services rendered. Service agreements were entered into between the Company and the following entities in the holding company system as of December 31, 2000:

1. AEGON USA, Inc. effective July 1, 1996 - Under the terms of this service agreement, AEGON provides general technical and advisory services in regard to group annuity business;
2. Monumental Life Insurance Company (“Monumental”), effective July 1, 1996 - Under the terms of this service agreement, Monumental provides accounting, data processing and policy related services for individual life, health, long-term care, annuities and supplemental contracts;
3. AEGON USA, Inc., effective September 24, 1993 - Under the terms of this service agreement, AEGON furnishes general advisory services (data processing and accounting) and policy related advisory services (legal, actuarial, claims, underwriting and policyholder services) on behalf of the Company’s Dreyfus closed block of business;
4. Life Investors Insurance Company of America (“LIIC”), effective April 1, 1995, as amended effective July 1, 1996 - Under the terms of this service agreement, LIIC provides accounting, data processing and policy related services for individual life, health, long-term care, annuities and supplemental contracts;
5. AEGON Institutional Marketing Division (“IMD”) (formerly Diversified Financial Products) Effective October 1, 1997 - IMD performs general advisory services (accounting and data processing services), policy related advisory services (professional services, benefits, underwriting, marketing and policyholder services) and printing and related services with respect to guaranteed investment contracts;
6. Peoples Benefit Life Insurance Company (“PBLIC”), effective October 1, 1998 - PBLIC provides services such as accounting, data processing, claims processing and settlement, underwriting and marketing for the First Providian contracts that the Company acquired as a result of the merger with First Providian;

7. Western Reserve Life Assurance Co. of Ohio (“WRL”), effective March 25, 1999 - WRL provides general advisory services, accounting and data processing services, policy related advisory services including marketing, professional claims, and policyholder services, printing and related services for the Company’s flexible premium variable life policy;
8. Transamerica Occidental Life Insurance Company ("TOLIC") effective September 30, 2000 - Under the terms of this service agreement TOLIC performs all services necessary for, and incidental to, the proper management and administration of contracts written or assumed by the Company;
9. AEGON USA Investment Management, Inc. ("AEGON") effective July 1, 1996 - Under the terms of this investment management agreement, AEGON provides investment management for mortgage-backed securities, bonds, equities, and cash in accordance with Company guidelines;
10. AEGON USA Realty Advisors, Inc. ("AEGON Realty") effective December 31, 1993 - Under the terms of this agreement AEGON Realty provides various services pertaining to the real estate and mortgage loan assets held by the Company;
11. AFSG Securities Corporation ("ASFG") effective April 1, 1999 - Under the terms of this principal underwriting agreement, AFSG distributes and serves as the principal underwriter of several variable life and annuity contracts; and
12. Diversified Investment Advisors, Inc. (“Diversified”), effective December 31, 1993 - Under the terms of this service agreement, Diversified provides services related to the group pension business purchased from MONY including the administration of retirement plans funded by contracts issued by the Company.

In addition to the aforementioned service agreements, the Company participates in a multi-party intercompany short-term loan agreement. Under the terms of this agreement, the various operating companies of AEGON have the ability to make short-term loans to one another of less than 12 months duration. The agreement specifies the terms and conditions of such loans. The Company was added as a participant to this agreement on October 1, 1996.

Section 1505(d) of the New York Insurance Law states, in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:

(1) sales, purchases, exchanges, loans or extensions of credit, or investments, involving more than one-half of one percent but less than five percent of the insurer’s admitted assets at last year-end . . .

(3) rendering of services on a regular or systematic basis”

On December 28, 2000, the Company purchased common stock with a market value of \$128,315,740 directly from an affiliate (Transamerica Occidental Life Insurance Company). The total market value of this transaction exceeded one half of one percent of the Company’s admitted assets as of December 31, 1999.

On May 26, 2000, the Company purchased bonds with a market value of \$69,852,081 directly from an affiliate (Transamerica Occidental Life Insurance Company). The total market value of this transaction exceeded one half of one percent of the Company’s admitted assets as of December 31, 1999.

The Company violated Section 1505(d)(1) of the New York Insurance Law when it purchased stocks and bonds in separate transactions, each in excess of one half of one percent of admitted assets, from an affiliate without notifying the superintendent in writing of its intention to enter into such transactions at least thirty days prior thereto.

The Company entered into a Principal Underwriting Agreement with an affiliate, AFSG Securities Corporation (“AFSG”), effective April 1, 1999 for the sale and distribution of certain variable annuity contracts issued through the Company’s Financial Market Division. This agreement was not filed with the Department pursuant to the provisions of Section 1505(d)(3) of the New York Insurance Law.

The Company violated Section 1505(d)(3) of the Insurance Law when it failed to file a principal underwriting agreement with an affiliate at least 30 days prior to its effective date of April 1, 1999.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 21 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in March of each year. As of December 31, 2000, the board of directors consisted of 13 members. Meetings of the board are held quarterly.

The 13 board members and their principal business affiliation, as of December 31, 2000 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
William Brown, Jr.* White Plains, NY	Executive Director Brownstone Management Consultants, Inc.	1995
William L. Busler Cedar Rapids, IA	Vice President AUSA Life Insurance Company, Inc.	1993
Robert F. Colby Larchmont, NY	Vice President Diversified Investment Advisors Vice President and Assistant Secretary AUSA Life Insurance Company, Inc.	2000
Jack R. Dykhouse Colleyville, TX	Vice President AUSA Life Insurance Company, Inc.	1993
Steven E. Frushtick* Mamaroneck, NY	Partner Wiener, Frushtick & Straub	1993
Eric Goodman Louisville, KY	Vice President AEGON USA Investment Management Vice President AUSA Life Insurance Company, Inc.	1999
Vice Admiral Carl T. Hanson* Orient, NY	Retired	1993
Peter P. Post* Armonk, NY	President Emmerling Post, Inc.	1993

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Robert S. Rubinstein New York, NY	Senior Vice President and Secretary Transamerica Life Insurance Company of New York Vice President and Assistant Secretary AUSA Life Insurance Company, Inc.	2000
Tom A. Schlossberg Stamford, CT	President and Chief Executive Officer Diversified Investment Advisors, Inc. Chairman of the Board and President AUSA Life Insurance Company, Inc.	1993
Colette F. Vargas Irvington, NY	Vice President and Actuary Diversified Investment Advisors, Inc. Chief Actuary AUSA Life Insurance Company, Inc.	1996
Cornelis H. Verhagen New Providence, NJ	President AEGON Management Company	1993
E. Kirby Warren* Tuxedo Park, NY	Professor Columbia University School of Business	1993

* Not affiliated with the Company or any other company in the holding company system

In May 2001, directors Carl T. Hanson and Eric Goodman were replaced by Marc C. Abrahms and James T. Byrne, Jr.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2000:

<u>Name</u>	<u>Title</u>
Tom A. Schlossberg	President and Chairman of the Board
Robert J. Kontz	Controller
Patrick S. Baird	Vice President and Chief Financial Officer
Craig D. Vermie	Secretary
Colette F. Vargas	Chief Actuary
Robert S. Rubinstein*	Vice President and Assistant Secretary
Robert F. Colby	Vice President and Assistant Secretary

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in all 50 states and the District of Columbia. In 2000, 93% of life premiums, 96% of accident and health premiums, 56% of annuity considerations, and 40% of deposit-type funds were received from New York. Policies are written on a non-participating basis. Deposit-type funds accounted for 94% of the Company's total premium for 2000.

The Company operates through a number of operating divisions that are organized based upon distribution channels including: (1) the Agency Group; (2) the Pension Group; and (3) the Alternative Markets Group. The following are the significant operating divisions of the Company as of December 31, 2000:

1. Diversified Investment Advisors is part of the Pension Group that markets retirement plan products for companies, state and local governments, unions and non-profit organizations through brokers and agents;
2. The Financial Markets Division is part of the Alternative Markets Group that markets both fixed and variable annuities to New York residents through broker-dealers and financial institutions;

3. The Institutional Markets Division is part of the Pension Group that markets both traditional and synthetic guaranteed investment contracts (“GICs”) to institutional retirement funds located in New York;
4. The Individual Insurance Division is part of the Agency Group. The Division administers a closed block of life, health, and annuity business. The Division also markets life insurance to corporations (corporate owned life insurance) and banks (bank owned life insurance) through independent brokers;
5. The Monumental Life Division is part of the Agency Group that markets life and health insurance to New York residents through a career agency field force;
6. The Special Markets Group is part of the Alternative Markets Group that markets supplemental life, health and credit insurance to New York residents through brokers, third party administrators, agents and direct placement including direct mail, telemarketing and internet sales;
7. The Western Reserve Life Division is part of the Agency Group that markets variable universal life to New York residents through general agents;
8. The Long-term Care Division markets the Company’s long-term care business to New York residents through an independent agent operation; and
9. The Insurance Center (“TIC”) is comprised of a block of group and individual health insurance that is in run-off. This division was sold in 2000. Currently, TIC acts as a third party administrator for New York policies that were kept by the Company at the time of the sale.

E. Reinsurance

As of December 31, 2000, the Company had reinsurance treaties in effect with 22 companies, of which 12 were authorized or accredited. The Company’s life, annuity and accident and health policies are reinsured on a coinsurance, mod-co, and yearly renewable term basis. Reinsurance is provided on an automatic and/or facultative basis.

The maximum retention limit for individual life contracts is \$500,000. The total face amount of life insurance ceded as of December 31, 2000, was \$68,369,251, which represents 2.5% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$1,187,334, was supported by letters of credit.

The total face amount of life insurance assumed as of December 31, 2000, was \$314,256,860.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	<u>December 31,</u> <u>1996</u>	<u>December 31,</u> <u>2000</u>	<u>Increase</u>
Admitted assets	\$ <u>9,028,320,546</u>	\$ <u>11,678,509,727</u>	\$ <u>2,650,189,181</u>
Liabilities	\$ <u>8,794,340,277</u>	\$ <u>11,228,003,973</u>	\$ <u>2,433,663,696</u>
Common capital stock	\$ 2,500,000	\$ 2,500,000	\$ 0
Gross paid in and contributed surplus	306,694,000	319,179,844	12,485,844
Group life contingency reserve	0	1,520,254	1,520,254
Annuitant mortality fluctuation reserve	0	648,261	648,261
Unassigned funds (surplus)	<u>(75,213,731)</u>	<u>126,657,395</u>	<u>201,871,126</u>
Total capital and surplus	\$ <u>233,980,269</u>	\$ <u>450,505,754</u>	\$ <u>216,525,485</u>
Total liabilities, capital and surplus	\$ <u>9,028,320,546</u>	\$ <u>11,678,509,727</u>	\$ <u>2,650,189,181</u>

The majority (59%) of the Company's admitted assets, as of December 31, 2000, is derived from separate accounts.

The Company's invested assets as of December 31, 2000, exclusive of separate accounts, were mainly comprised of bonds (84%), and mortgage loans (9%).

The majority (93.4%) of the Company's bond portfolio as of December 31, 2000 was comprised of investment grade obligations.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	<u>1997*</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Ordinary:				
Life insurance	\$ 6,633,743	\$ 3,786,124	\$14,911,602	\$11,685,286
Individual annuities	10,161,367	2,291,153	42,926,532	16,718,105
Supplementary contracts	<u>(288)</u>	<u>118,974</u>	<u>574</u>	<u>(2,745,371)</u>
Total ordinary	\$ <u>16,794,822</u>	\$ <u>6,196,251</u>	\$ <u>57,838,708</u>	\$ <u>25,658,020</u>
Credit life	\$ <u>(568,533)</u>	\$ <u>(182,377)</u>	\$ <u>189,927</u>	\$ <u>309,667</u>
Group:				
Life	\$ 1,049,407	\$ 1,748,955	\$ 1,768,054	\$ 1,009,877
Annuities	<u>(14,917,069)</u>	<u>8,640,318</u>	<u>12,076,425</u>	<u>34,606,346</u>
Total group	\$ <u>(13,867,662)</u>	\$ <u>10,389,273</u>	\$ <u>13,844,479</u>	\$ <u>35,616,223</u>
Accident and health:				
Group	\$ 710,840	\$ (1,177,668)	\$ (503,632)	\$ (41,425)
Credit	90,112	(4,237)	(133,429)	14,496
Other	<u>9,010,596</u>	<u>3,708,940</u>	<u>3,767,074</u>	<u>2,005,462</u>
Total accident and health	\$ <u>9,811,548</u>	\$ <u>2,527,035</u>	\$ <u>3,130,013</u>	\$ <u>1,978,533</u>
Total	\$ <u>12,170,175</u>	\$ <u>18,930,182</u>	\$ <u>75,003,127</u>	\$ <u>63,562,443</u>

*The 1997 amounts have been restated to include the First Providian business.

The Company explained that the loss on supplementary contracts in 2000 was due to the increase in reserves as a result of a reclassification of reserves from annuities to supplementary contracts.

The Company explained that the losses on credit life in 1997 and 1998 were due to start up costs associated with a new line of business.

The Company explained that the large loss on group annuities in 1997 was due to an increase in expenses as the Company was in the process of expanding this line of business.

The Company explained that the losses on group accident and health for the years 1999 and 2000 were due to large underwriting losses. In 1998, the separate account net loss from operations of \$1.4 million was erroneously reflected as group accident and health instead of as group annuities thereby showing a loss on the group accident and health line of business.

The Company explained that the losses on credit accident and health for the years 1998 and 1999 were due to underwriting losses.

Section 91.5(b) of Department Regulation No. 33 states:

“A licensed life insurer proposing to adopt an investment year method in the distribution of net investment income, or to revise such a method already in effect, shall on or before November 1 of the first year for which such method or revision is to be used file with the superintendent a full description of its plan, together with its certification that the plan conforms to the foregoing rules. If the company’s method includes deviations from the foregoing rules, or contemplates the use of a method other than the investment year method for assets not listed in paragraph (a)(1), such deviations or use require the approval of the superintendent as being equitable and as being necessary for reasons of feasibility before the method can be adopted.”

The Company allocates net investment income to major annual statement lines of business by using the segmentation method, a variation of the investment year method. The Company has not filed this method with the Department pursuant to the requirements of Section 91.5 of Department Regulation No. 33.

The Company violated Section 91.5(b) of Department Regulation No. 33 for failure to obtain Department approval for using the segmentation method for the allocation of net investment income to annual statement lines. A similar violation appeared in the prior report on examination. (See item 8J of this report)

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2000, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years 1997 through 2000 as extracted from the Company's filed annual statements for the period under examination. These financial statements have been subject to a limited audit or review as indicated in the scope of examination (item 2 of this report).

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2000

Admitted Assets

Bonds	\$ 3,965,483,320
Stocks:	
Preferred stocks	6,788,580
Common stocks	129,090,336
Mortgage loans:	
First liens	431,456,290
Policy loans	3,204,942
Cash and short-term investments	43,219,390
Other invested assets	9,745,160
Short-term intercompany note receivable	134,200,000
Derivatives	60,462
Reinsurance ceded:	
Amounts recoverable from reinsurers	2,836
Federal income tax recoverable	3,382,525
Guaranty funds receivable or on deposit	244,787
Life insurance premiums and annuity considerations	
deferred and uncollected on in force business	5,965,993
Accident and health premiums due and unpaid	472,724
Investment income due and accrued	62,224,552
Receivable from parent, subsidiaries and affiliates	4,781,726
Accounts receivable	2,661,506
From Separate Accounts statement	<u>6,875,524,598</u>
 Total admitted assets	 <u>\$11,678,509,727</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$ 846,956,227
Aggregate reserve for accident and health policies	16,474,605
Supplementary contracts without life contingencies	6,198,247
Policy and contract claims:	
Life	3,226,527
Accident and health	8,122,200
Premiums and annuity considerations received in advance	1,121,067
Liability for premium and other deposit funds:	
Policyholder premiums	6,020
Guaranteed interest contracts	225,563,796
Other contract deposit funds	3,043,469,326
Policy and contract liabilities:	
Provision for experience rating refunds	27,048
Interest maintenance reserve	10,788,342
Commissions to agents due or accrued	169,037
Commissions and expense allowances payable on reinsurance assumed	20,744
General expenses due or accrued	374,766
Transfers to Separate Accounts due or accrued	(5,467,703)
Taxes, licenses and fees due or accrued	(509,140)
Cost of collection on premiums and annuity considerations deferred and uncollected in excess of total loading thereon	96,206
Unearned investment income	85,007
Amounts withheld or retained by company as agent or trustee	7,347,231
Amounts held for agents' account	1,336,342
Remittances and items not allocated	72,542,047
Miscellaneous liabilities:	
Asset valuation reserve	90,588,704
Reinsurance in unauthorized companies	160,804
Payable for securities	4,843,815
Due to reinsurer	2,359,358
Deferred interest on assets purchased	642,125
Amount payable to MONY	27,735,143
From Separate Accounts statement	<u>6,863,726,082</u>
 Total liabilities	 <u>\$11,228,003,973</u>
 Common capital stock	 \$ 2,500,000
Gross paid in and contributed surplus	319,179,844
Group life contingency reserve	1,520,254
Annuitant mortality fluctuation reserve	648,261
Unassigned funds (surplus)	126,657,395
Total capital, surplus and other funds	<u>450,505,754</u>
 Total liabilities, capital, surplus and other funds	 <u>\$11,678,509,727</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1997*</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$1,311,368,962	\$1,187,651,857	\$1,554,015,084	\$1,603,593,878
Investment income	344,931,564	351,775,786	329,127,721	331,261,528
Net gain from operations from Separate Accounts	320,828	(1,449,561)	569,783	725,200
Commissions and reserve adjustments on reinsurance ceded	374,385	301,727	423,791	453,260
Miscellaneous income	<u>16,919,101</u>	<u>44,110,880</u>	<u>56,832,563</u>	<u>59,763,303</u>
 Total income	 <u>\$1,673,914,840</u>	 <u>\$1,582,390,689</u>	 <u>\$1,940,968,942</u>	 <u>\$1,995,797,169</u>
 Benefit payments	 \$1,226,878,882	 \$1,171,003,855	 \$1,992,068,227	 \$1,689,669,412
Increase in reserves	211,517,938	48,243,217	(164,727,791)	42,959,247
Commissions	79,098,582	69,009,404	50,265,205	48,589,884
General expenses and taxes	96,329,919	96,634,531	59,870,503	60,621,545
Increase in loading and cost of collection	76,204	51,627	(130,432)	(14,627)
Net transfers to (from) Separate Accounts	42,490,582	174,434,814	(79,470,536)	69,726,168
Miscellaneous deductions	<u>105,194</u>	<u>61,791</u>	<u>114,376</u>	<u>(29,573)</u>
 Total deductions	 <u>\$1,656,497,301</u>	 <u>\$1,559,439,239</u>	 <u>\$1,857,989,552</u>	 <u>\$1,911,522,056</u>
 Net gain	 \$ 17,417,539	 \$ 22,951,450	 \$ 82,979,390	 \$ 84,275,113
Federal income taxes	<u>5,247,362</u>	<u>4,021,269</u>	<u>7,976,263</u>	<u>20,712,670</u>
Net gain from operations before net realized capital gains	\$ 12,170,177	\$ 18,930,181	\$ 75,003,127	\$ 63,562,443
Net realized capital gains	<u>832,001</u>	<u>3,770,488</u>	<u>11,471,030</u>	<u>1,023,321</u>
 Net income	 <u>\$ 13,002,178</u>	 <u>\$ 22,700,669</u>	 <u>\$ 86,474,157</u>	 <u>\$ 64,585,764</u>

* The 1997 amounts have been restated to include the First Providian business.

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1997*</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus, December 31, previous year	\$ <u>318,906,643</u>	\$ <u>300,308,187</u>	\$ <u>303,245,710</u>	\$ <u>393,494,014</u>
Net income	\$ 13,002,178	\$ 22,700,669	\$ 86,474,157	\$ 64,585,764
Net unrealized capital gains or (losses)	(2,709,786)	4,439,818	(2,666,351)	(539,525)
Change in non-admitted assets and related items	(8,482,898)	(291,494)	8,956,985	682,509
Change in liability for reinsurance in unauthorized companies	28,795	17,842	(394,394)	382,513
Change in asset valuation reserve	(20,445,526)	(16,752,925)	1,079,857	(7,591,302)
Surplus (contributed to) withdrawn from Separate Accounts during period	11,700,177	1,817,613	9,465,378	(4,392,500)
Other changes in surplus in Separate Accounts statement	(11,749,397)	(992,685)	(12,667,328)	3,884,281
Dividends to stockholders	0	(8,000,000)	0	0
Prior period federal income tax adjustment	<u>58,000</u>	<u>(1,315)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	\$ <u>(18,598,457)</u>	\$ <u>2,937,523</u>	\$ <u>90,248,304</u>	\$ <u>57,011,740</u>
Capital and surplus, December 31, current year	\$ <u>300,308,187</u>	\$ <u>303,245,710</u>	\$ <u>393,494,014</u>	\$ <u>450,505,754</u>

* The 1997 amounts have been restated to include the First Providian business.

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

1. Section 1313(a)(1) of the New York Insurance Law states, in part:

“ . . . every advertisement or other public announcement published, issued or distributed in this state by any domestic or foreign insurer . . . purporting to make known the insurer's separate financial condition, shall show the amount of its admitted assets, liabilities and reserves required or permitted by law, and its surplus to policyholders . . . ”

An advertisement originating from the Company's Financial Markets Division for the Endeavor annuity reflected the assets of the Company without showing the liabilities, reserves and surplus to policyholders, as required by Section 1313(a)(1) of the New York Insurance Law.

The Company violated Section 1313(a)(1) of the New York Insurance Law by reflecting the assets of the Company without showing the liabilities, reserves and surplus required pursuant to this section.

2. Section 2122(a)(2) of the New York Insurance Law states:

“No insurance agent, insurance broker or other person, shall, by any advertisement or public announcement in this state, call attention to any unauthorized insurer or insurers.”

Advertisements originating from the Financial Markets and Western Reserve Life Divisions of the Company contained references to unauthorized insurers.

The Endeavor annuity client guide originating from the Company's Financial Markets Division states that the Endeavor annuity's guaranteed death benefits are based on the claims paying ability of PFL Life Insurance Company. For New York residents, the Endeavor annuity's guaranteed death benefits are based on the claims paying ability of the Company.

Nine advertisements originating from the Company's Western Reserve Life Division for a group variable annuity product mention both the Company and an affiliate, Western Reserve Life Assurance Co. of Ohio. These advertisements do not indicate that the contracts are sold by the Company in New York State.

The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to unauthorized insurers in its advertisements.

3. Section 219.4(p) of Department Regulation No. 34-A states, in part:

“In all advertisements made by an insurer, or on its behalf, the name of the insurer shall be clearly identified, together with the name of the city, town or village in which it has its home office in the United States”

Advertisements originating from the Company's Financial Markets Division, Institutional Markets Division and Special Markets Group did not indicate the city of the Company's home office.

The Company violated Section 219.4(p) of Department Regulation No. 34-A by failing to include the city of its home office in advertisements originating from the Company's Financial Markets Division, Institutional Markets Division, and Special Markets Group.

4. Section 219.4(p) of Department Regulation No. 34-A states, in part:

“ . . . An advertisement shall not use a trade name, an insurance group designation, name of the parent company or affiliate of the insurer, name of a particular division of the insurer, service mark, slogan, symbol or other device or reference if such use would have the tendency to mislead or deceive as to the true identity of the insurer, or create the impression that someone other than the insurer would have any responsibility for the financial obligation under a policy.”

A review of the Company's Vanguard variable annuity marketing kit produced by the Financial Markets Division revealed that certain advertisements did not mention that the

Company is the issuer of this product, giving the impression that the product is issued by the Vanguard Group.

The Company violated Section 219.4(p) of Department Regulation No. 34-A by using advertisements that obscure the true identity of the issuer.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Section 3201(b)(1) of the New York Insurance Law states, in part:

“No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent as conforming to the requirements of this chapter and not inconsistent with law. . . .”

The Company used an application form for its Separate Account C variable annuity products, Advisors Edge and Prism, before it was filed with and approved by the Department.

The Company violated Section 3201(b)(1) of the New York Insurance Law when it used an application form for its Separate Account C variable annuity product before it was filed with and approved by the Department.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the “Supplement”), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic

and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company reported that it has conducted a thorough review of the underwriting practices of its various divisions. This review revealed that most of the Company's divisions began writing business in New York in 1980. The Company also reviewed a small block of business assumed from Dreyfus dating back to 1947. In summary, the Company's findings were that the Company had not engaged in underwriting practices based upon race, color, creed or national origin.

An analysis of the Company's response to the Supplement and other factors indicated that the Company's review of its past and present underwriting practices complied with the requirements of the Supplement.

7. DERIVATIVE USE PLAN

Section 1411(a) of the New York Insurance Law states:

“No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee’s minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

The Company’s board of directors did not approve any of the Company’s interest rate swaps entered into from 1997 through 1999.

The Company violated Section 1411(a) of the New York Insurance Law by not obtaining board approval for entering into derivative transactions for the years 1997, 1998 and 1999.

Section 175.9 of Department Regulation No. 111 states, in part:

“Prior to engaging in bona fide hedging transactions, the insurer's board of directors, or a committee thereof, must authorize such activity and adopt written guidelines to be followed in effecting and maintaining such transactions, including a system of internal control procedures. . . .”

Section 175.10(a) of Department Regulation No. 111 states:

“Each insurer shall notify this Department immediately following authorization by its board of directors, or a committee thereof, permitting it to engage in bona fide hedging transactions, including with such notification a copy of the guidelines adopted and a listing of the individuals authorized to engage in such transactions. No insurer shall engage in bona fide hedging transactions until its guidelines shall have been submitted to this department.”

The Company has been engaging in derivative transactions in the form of interest rate swaps since 1997. The board approved a derivatives use plan on August 10, 1999. In September 1999, pursuant to Department Regulation No.163, a derivatives use plan filing was submitted for approval to the Department. Prior to August 10, 1999, the Company’s board did not authorize a derivative use plan.

The Company did not submit its derivative use plan guidelines to the Department pursuant to Section 175.10 to Department Regulation No. 111 for derivative transactions entered into prior to September 1999.

The Company violated Sections 175.9 and 175.10(a) of Department Regulation No. 111 for entering into hedging transactions between 1997 and 1999 prior to: (1) establishing written guidelines approved by the board; and (2) submitting its guidelines to the Department.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and the comment contained in the prior report on examination:

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 1505(d) of the New York Insurance Law as follows:</p> <p>(1) The Company received approval for its short term borrowing agreement with AEGON effective October 1, 1996; however, the Company has been borrowing and repaying loans since 1995.</p> <p>The Company is required to file an annual extension of its intercompany short term borrowing agreement, originally approved in 1996. The examiner reviewed the annual extension filings submitted to the Department for the short-term loan agreement for the years 1997, 1998, 1999 and 2000.</p> <p>(2) The Company's agreement with Monumental Life Insurance Company allows Monumental Life Insurance Company to charge \$1,000 for each newly issued group policy; however, the Company was charged for each variation of a policy whether or not the variation was included in the issued policy. As a result of the prior examination, the Company was reimbursed \$979,000.</p> <p>As a result of the prior examination's findings, the Company is abiding by the filed agreement and has revised its procedures for calculating and settling fees to be in compliance with the agreement.</p> <p>(3) The Company's agreement with Life Investors Insurance Company of America ("LIICA") allows LIICA to charge the Company a specific schedule as well as a schedule based upon an allocation of costs in accordance with Department Regulation No. 33. LIICA instituted new rates in 1996 based upon a 1995 cost study. The examiner found that the allocation method was not acceptable in accordance with Department Regulation No. 33 and the Company did not approve the changes in rates.</p> <p>On May 5, 1998, the Company filed a revised Schedule A reflecting billing changes for the individual health business.</p>

<u>Item</u>	<u>Description</u>
B	<p>The Company violated Section 1411(a) of the New York Insurance Law when the Investment Committee failed to approve the purchases and sales of its Separate Account investments.</p> <p>The Company has provided the board with a written report of Separate Account transactions for the previous quarter at each quarterly meeting since November 1997.</p>
C	<p>The Company violated Section 2114(a)(1) of the New York Insurance Law when it allowed seven terminated agents, including two agents who were unlicensed, to write policies for the Company.</p> <p>The Company has implemented a new legacy system that will not process a sale if the agent is not both licensed and appointed with the Company.</p>
D	<p>The Company violated Section 2119(a)(1) of the New York Insurance Law when it paid commissions or expense allowances to seven agents without a written contract.</p> <p>The Company has established controls in its new legacy system to prevent commission payments without a proper contract in place.</p>
E	<p>The Company violated Section 11.5 of Department Regulation No. 49 when it paid an expense allowance to an agent without having the plan approved by the Department.</p> <p>The Company filed and received approval of the compensation plan in 1998.</p>
F	<p>The examiner recommended that the Company amend an agent agreement to remove language which restricts the Company's ability to manage a line of business.</p> <p>The Company revised the language in this agency agreement to remove the restrictive language in question.</p>

<u>Item</u>	<u>Description</u>
G	<p>The examiner recommended that the Company amend an agent contract to include language to differentiate between commission rates and expense allowance rates.</p> <p>The Company's filed compensation plan includes separate rates for expense allowances and commissions.</p>
H	<p>The Company violated Section 2119(a)(1) of the New York Insurance Law by paying commissions or expense allowances to seven agents without a written contract.</p> <p>The agents in question no longer conduct business for the Company.</p>
I	<p>The Company failed to accurately respond to question 31A of the general interrogatories in its 1996 filed annual statement and report that certain agents were responsible for more than 20% of a line of business.</p> <p>The Company has initiated procedures where information regarding agents writing more than 20 percent of any line of business would be captured for inclusion in the general interrogatories of the annual statement.</p>
J	<p>The Company violated Section 91.4(c)(2) of Department Regulation No. 33 regarding the allocation of net investment income.</p> <p>There is a similar violation of Department Regulation No. 33 in this report.</p>
K	<p>The Company violated Section 51.5(b) of Department Regulation No. 60 when it failed to maintain a record indexed by insurer of its replacements from March 1993 to mid 1996.</p> <p>The Company has implemented procedures to maintain the necessary replacement index.</p>

<u>Item</u>	<u>Description</u>
L	<p>The Company violated Section 215.27 of Department Regulation No. 34 and Section 219.5 of Department Regulation No. 34-A when it failed to maintain a record of the extent of distribution for each piece of accident and health and life advertising.</p> <p>The Company maintains records which include the extent of the distribution for each piece of accident and health and life insurance advertising.</p>
M	<p>The Company violated Section 3201(b)(1) of the New York Insurance Law when it failed to file a policy form with the Department.</p> <p>The Company has filed and received approval for the policy form that was the subject of this violation. However, the Company used a different policy form before it was approved and again violated Section 3201(b)(1) of the New York Insurance Law.</p>
N	<p>The Company violated Section 261.11 of Department Regulation No. 64 when it failed to include important documentation as part of the claim file.</p> <p>The division responsible was advised in writing of the record keeping requirements and it has confirmed compliance. The examiner's review of claim files for the Monumental division did not reveal any missing claim documentation.</p>
O	<p>The examiner recommended that the Company properly report its intercompany expenses on Exhibit 5 and properly answer question 10(b) of the general interrogatories.</p> <p>The Company currently reports its intercompany expenses on the general interrogatories (Question 7b) as well as its allocated expenses into one Exhibit 5 category.</p>

9. SUMMARY AND CONCLUSIONS

Following are the violations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(d)(1) of the New York Insurance Law when it purchased bonds and common stock in excess of one half of one percent of admitted assets from an affiliate without filing the transaction.	8
B	The Company violated Section 1505(d)(3) of the Insurance Law when it failed to file a principal underwriting agreement with an affiliate prior to its effective date of April 1, 1999.	8
C	The Company violated Section 91.5(b) of Department Regulation No. 33 for failure to obtain Department approval for using the segmentation method for the allocation of net investment income to annual statement lines.	15
D	The Company violated Section 1313(a)(1) of the New York Insurance Law by reflecting its assets without showing the liabilities, reserves and surplus in certain advertisements.	20
E	The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to unauthorized insurers in its advertisements.	20 - 21
F	The Company violated Section 219.4(p) of Department Regulation No. 34-A by failing to include the city of its home office for advertisements originating from the Company's Financial Markets Division, Institutional Markets Division, and Special Markets Group.	21
G	The Company violated Section 219.4(p) of Department Regulation No. 34-A by using advertisements that obscure the true identity of the issuer.	21 - 22
H	The Company violated Section 3201(b)(1) of the New York Insurance Law when it used an application form for its Separate Account C variable annuity products before it was filed with and approved by the Department.	22

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
I	The Company violated Section 1411(a) of the New York Insurance Law by not having board approval for entering into derivative transactions for the years 1997, 1998 and 1999.	24
J	The Company violated Sections 175.9 and 175.10(a) of Department Regulation No. 111 for entering into hedging transactions between 1997 and 1999 prior to: (1) establishing written criteria approved by the board; and, (2) submitting its guidelines to the Department.	24 - 25

APPOINTMENT NO. 21649

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

MICHAEL V. IMBRIANO

as a proper person to examine into the affairs of the

AUSA LIFE INSURANCE COMPANY, INC.

and to make a report to me in writing of the condition of the said
COMPANY

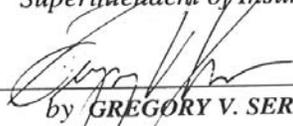
with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 15th day of November, 2000



NEIL D. LEVIN
Superintendent of Insurance


by GREGORY V. SERIO
First Deputy Superintendent